PRETEXTO

MICROINSURANCE – OPPORTUNITIES AND RESTRICTIONS IN AN EMERGING MARKET

MICROSEGURO – OPORTUNIDADES E RESTRIÇÕES EM UM MERCADO EMERGENTE

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RESUMO

Por ser um tema recente, ainda não há consenso sobre a definição de “microseguro” e a sua dinâmica de mercado. Com o objetivo de contribuir para a compreensão do tema, este estudo investiga a dinâmica do Mercado de microseguros no Brasil, avaliando suas oportunidades e restrições. Foi elaborado um estudo de caso, através de entrevistas com tomadores de decisão de um dos maiores bancos do País e do órgão regulador do mercado de seguros do Brasil. Os resultados apontaram que o processo operacional deve ser simples e rápido e que os produtos de microseguros devem se valer dos mesmos canais de distribuição utilizados por outras operações de microfinanças, otimizando custos e gerando eficiência. Para que isso seja possível, as regulações de seguros estão mudando, mas é necessária supervisão na sua aplicação.

Palavras-chave: Microseguro, Inclusão Financeira, Correspondentes Bancários, Seguro, Sistema Regulatório de Seguros.

ABSTRACT

As a recent theme there is not a consensus about microinsurance definition and its market dynamics. In order to shed some lights on the theme, this study investigates the dynamics of microinsurance market in Brazil, evaluating its opportunities and restrictions. For this purpose, a qualitative case study was made by interviewing decision makers from one of the biggest banks in the country and from the Brazilian insurance regulatory organism. The study finds that the operational processes should be simpler and quicker, and that microinsurance products should use the same distribution channel used by other microfinance operations, optimizing costs and efficiency. For that, the insurance regulation is changing, but it is necessary supervision on its application.

Keywords: Microinsurance, Financial Inclusion, Banking Correspondent, Insurance, Insurance Regulatory System.

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INTRODUCTION

In recent years, much have been said about microfinance, but so little about microinsurance as a product targeted to the same public. As a recent theme, there is not a consensus about microinsurance definition, its conceptualization and market dynamic (AFONSO; SEPÚLVEDA, 2010). This research attempts to contribute to fill this gap with a specific focus on the Brazilian case.

The study has the objective of investigating the dynamics of microinsurance market in Brazil, evaluating its opportunities and restrictions. The main motivations for the article came from the potential of microinsurance as a business opportunity and also as a contribution to the alleviation of poverty in Brazil. Alves and Soares (2006) state that low-income households suffer not only the lack of credit, but also lack of products such as microinsurance.

This paper shed lights on microinsurance theme by analyzing the Brazilian case through the application of a multilevel theoretical framework proposed by Pozzebon et al (2009). The framework has been chosen for its possibility of connecting the context, the content and the process of negotiation between involved actors, allowing us to visualize how a recent process of microinsurance implementation has been negotiated in a context where new players are entering and offering distinct contents as microinsurance options.

From an empirical standpoint, this paper presents an investigation of the one of the biggest private banks in Brazil and SUSEP. Besides being ranked between the three biggest private banks in Brazil, this bank, from now on called “BANK” has a dominant position on the insurance market and is a provider of microinsurance products and services. SUSEP is the regulator of insurance segment, with a broad view of negotiations that have been held in the country (BESTER et al, 2010).

This article is divided into five parts. The introduction presents the objectives, the context and justification. The second section addresses the microinsurance conceptualization, discusses some of the microinsurance market challenges in Brazil. Section three discusses the methodology used in this research and the fourth shows the results of a qualitative analysis performed through the use of a multilevel framework. Finally, the fifth section discusses the findings, concludes the article and recommends future researches.

LITERATURE REVIEW

Microinsurance conceptualization

Microinsurance as a formal field of research has little more than a decade, and at the beginning it was viewed as a complement of microcredit. The term microinsurance was created by analogy with micro-enterprises and micro-credit by Dror et al (2001). Worried about the low access of the poor to medical assistance, these authors advocated for the creation of microinsurance units to compliment the public and private health insurance system. Only recently, it has been understood as a version of regular insurance, with its own line of business (KOVEN; ZIMMERMAN, 2010).

Following this last string, Churchill (2006) defines microinsurance as; "… the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved." This definition emphasizes the characteristics of a regular insurance: payment of a premium to be protected against risks.

According to ILO - The International Labor Organization (2003), "microinsurance is the provision of insurance products that are designed for low-income persons in relation to cost, terms and coverage. It is intended to reduce the vulnerability of this market to major household economic shocks, such as a death in the family or a long-term illness." The definition provided by ILO brings the idea of a product that was created having the low-income people context as a precondition, respecting their needs and possibilities (MATOS, 2007). This definition includes the idea of financial inclusion and sets out the specific risks low income people are exposed.

Financial inclusion has been the leitmotiv of microfinance throughout the world for over 30 years now (ISERN; KOKER, 2009). Building inclusive financial systems was even part of the goals set up by the United Nations. Microfinance is defined as the supply of financial services to poor people, such as money transfers, loans, savings and insurance on a sustainable way (RHYNE, 1998). In this sense, it departs from the concept of charity or social transfers since the services should be part of the regular business models. The challenge is how to innovate in order to perform these services and preserve economic results. Worldwide microfinance figures represent US$ 25 billion in credits, reaching 100 million people. Despite of that, supply lags behind potential demand which is currently estimated at 1 billion people (CULL et al, 2009).

Microinsurance concept came out with a single purpose of reducing risks that poor people have to face on a daily basis. According to Latortue et al (2008), there are over 2 billion people without any kind of formal and regulated social security protection. Yet, for many reasons, populations belonging to the base of the pyramid are the most likely to face a situation of emergency or any economic risk.

Worldwide, most microinsurance products are related to health, accidental death, accidental disability, life and property (TOMCHINSKY, 2009). Nowadays, over 78 million low-income people in the 100 poorest countries are accessing microinsurance in some way, whether it is institutionalized or totally informal (Mccord, 2008). Even if this field is still at an experimental stage, the challenge of this product is very clear: to find the right balance between adequate protection and affordability. These challenges will be detailed bellow.

Microinsurance market challenges

According to the fundamental welfare theorems, under a set of assumptions there is a clear correspondence between efficiency and maximization of welfare (VARIAN, 1992). In fact, it can be shown that a competitive equilibrium warrants the maximization of welfare as long as the agents maximize utility taking the equilibrium price vector as given. The second welfare theorem goes further by showing that in this setting there is not a trade-off between equity and efficiency since prices are distributive neutrals.

Unfortunately, the real world presents some features that challenge the assumptions that support the welfare theorems. In other words, there are many empirical factors that lead to market failures. The main source of these failures is related to the problem of incomplete markets (or missing market). Poor people have limited access to credit and insurance markets due to asymmetric information and the lack of collateral. The information asymmetry may occur when buyers and sellers do not have the same information about a product or a service that are being trading. Usually, the seller has more information about the product than the buyer, which may put the buyer in disadvantaged position and also jeopardizing the resource allocation in the economic system. One consequence of information asymmetry is adverse selection, when a person is not able to identify a product characteristic properly, and, as a result, selects the product that should have been rejected.

Stiglitz and Weiss (1981) show that the adverse selection problem may be a plausible explanation for the lack of credit markets. Udry (1994), on the other hand, shows that under certain circumstances, households stress informal mechanisms of risk pooling.

In addition, it seems that incomplete markets help to explain the transitory poverty and, to some extent, the incidence of poverty. Morduch (1994) points out three factors that could explain the incidence of poverty in low developed countries: (1) weather and price variability; (2) lack of financial institutions; and (3) weakness of social insurance.

While price variability and weather are completely out of control for the households, the lack of credit and insurance markets can be imperfectly substituted by social arrangements and informal institutions (MORDUCH, 1995; UDRY, 1990). In other words, the income variability is partially mitigated and not entirely translated into consumption variability. In fact, many times at particular situations vulnerable households succeed in adopting ways of risk pooling idiosyncratic shocks and smooth consumption over time (UDRY, 1994; PARK, 2006).

In order to deal with incomplete markets, low-income households attempt to mitigate their risk in two ways. First, they may prevent themselves ex-ante by investing in low risk activities and/or diversifying their investments. Second, to reduce the variability of income ex-post they can borrow from informal lenders or depleting their assets after a negative shock (TOWNSEND, 1995; MORDUCH, 1999; DERCON et al, 2008). Although these strategies help deprived households to alleviate the impacts of an adverse shock to a certain extent, they constitute clearly imperfect risk management instruments and consumption tends to be preserved at the expenses of cutting important investments, such as children education (ROSE, 1999). In addition, these strategies have been found to be contributing to persistent poverty (DERCON et al, 2008).

Diversification of activities and the adoption of low-risk projects imply low return to the invested capital (MORDUCH, 1995). For this reason, there is a permanent trade-off faced by the poor since balancing risks reduces the expected profit. It could be also argued that it might increase the household’s rate of time preference and partially explain why poor households hardly succeed to escape of poverty trap.

On the other hand, consumption smoothing could be interesting for the poor as long as there were credit markets available. The asymmetric information problems (screening, enforcement and monitoring) and the lack of collateral may lead the poor to the informal lenders, whose excessive interest rates may intensify vulnerability instead of reducing it. In addition, when credit market is not complete, the decisions of production and consumption cannot be disentangled from each other since the optimal level of consumption becomes a fraction of total production. It can be shown that the utility level of households is lower than it could be under perfect credit market (GRAVELLE; REES, 2004; MORDUCH, 2002) and the separate decisions do not hold anymore.

In order to circumvent the informational problems MFI´s have innovated in many ways. The most famous one is the use of arrangements of individuals without collateral who get together and form groups with the aim of obtaining loans, the so-called group lending method which has become a synonymous with microfinance. Another relevant innovation is the use of credit agents, who play a similar role of relationship managers in the traditional banks, which is, prospecting, approving and monitoring clients etc. In addition, credit agents are characterized by a physical proximity and a close link with community where clients live. Therefore, microfinance has been seen as a way of breaking the poverty circle through a set of innovations that allows a market solution for low access and the use of financial services by the poor (MORDUCH, 1999).

Microinsurance in Brazil

In Brazil, the insurance market is regulated mainly by SUSEP (the Superintendence of Private Insurers bound to Ministry of finance and Economy) and CNSP. While CNSP (National Council of Private Insurance, a group composed of private companies and government representatives, bound to Ministry of Economy and Finance) has the attribution of creating insurance legislation, SUSEP is responsible for providing recommendations, application and supervision regarding the insurance legislation.

The microinsurance concept and its limits were defined gradually with the work done by SUSEP since 2004, when the institution edited a document regarding microinsurance aimed at low-income market.

In 2007 SUSEP coordinated the Microinsurance commission, a group with experts gathered from distinct fields, all related to financial inclusion. They were policy makers, representatives of the insurance sector in Brazil and academic researchers. As a mission, they had to define the frontiers of the low-income market for microinsurance, as well as the potential limits to its development (QURESHI, REINARD, 2009).

In September 2008, SUSEP officially proposed definitions for “microinsurance” and “low-income population”, regarding microinsurance purposes in Brazil as following:

“Microinsurance is the insurance protection provided by licensed entities within the country against specific risks which aims fundamentally to preserve the socio-economic personal and family situation of the low-income population by means of premium payments which are proportional to the probability and cost of risks involved, in accordance with the legislation and globally accepted insurance principles.” (SUSEP, August 20008).

In November 2008, SUSEP presented its conclusions about regulatory issues (SUSEP, October 2008). The group had not found regulatory barriers and considered the legislation flexible and prompt to regulate microinsurance activities within the scope of SUSEP.

In 2009, SUSEP continued in the way of defining recommendations and parameters for microinsurance in Brazil. The institution defined that the terms of insurance contracts had to allow flexibility and promote the insurance culture (SUSEP, 2009). Among other aspects, SUSEP emphasized: reduction of time limits need, payment claiming possibilities, and specific licenses providing for insurers to sell microinsurance products. At the same time, it was created the function of microinsurance broker and recommended the adoption of other intermediaries such as microinsurance correspondents.

After briefly describing the evolution of microinsurance market in Brazil, we will present an overview of this market supply and demand sides.

The main insurance providers that are exploring the insurance low-income market are: bank-led groups dominant in the insurance market, large independent insurers that do not have relation with banks, smaller players following different models such as door to door sales, and informal funeral parlors and cemeteries (BESTER et al, 2010).

On the demand side, the private insurance market encompass between 40 and 50 million people. The potential market for microinsurance is composed from 23 to 33 million, people who receive up to three minimum wages (622 BRL) (BESTER et al, 2010).

The sales rank of insurance market is led by health insurance, used by 12.9% of population, followed by life insurance (4.3%) and car insurance (2.9%). In 2008, the monthly expenses in these products were 16.79 BRL in health insurance, 3.22 BRL in car insurance, 2.17 BRL in the life insurance, 1,03 BRL in retirement insurance and 0,75 in others (NERI, 2009).

These products are oriented to social classes C, D and E (earning up to 3 minimum wages). They represent about 85% of the total population, but only 10.78% of households from classes CDE have access to insurance, spending on average 8.56 BRL per month and per person. In comparison, the total population, including AB social classes (under 3 minimum wages) has access to insurance spending on average of 23,96 BRL per month, per person. The access of poorest households (social class E) to insurance products is still worse, only 5.1% of people who earn up to one minimum wage have access to this kind of products (NERI, 2009).

The above figures may suggest that the microinsurance potential market deserves a deeply analysis in order that all the interested ones could create affordable products for low-income consumers.

Besides income, there are also many other factors that could influence the consumer behavior, such as genre or culture. In microinsurance market, the term insurance is not yet broadly accepted. The genre is on factor that may determine differences on that: microinsurance concept seems to be better accepted among women than men, but at the same time, men (12.63%) tend to have more access than women (8.93%) to microinsurance (DATAFOLHA, 2009).

Educational factors may also influence the consumer perception. According to the same study above, while only 5.24% of the individuals with less than 3 years of education have access to microinsurance products, 34.87% of people having more than 3 years of education have already both that kind of product.

Another quite relevant factor for microinsurance market growth is the availability of distribution channels. Currently SUSEP is struggling in order to apply and supervise the adoption of alternative and synergic distribution channels. These channels could be, for example, microcredit agents, whose effort to trade microinsurance products may be marginal. In this fashion, these agents could take advantage of the social networks they have already built with their clients; in order to reduce transaction costs (GALIZA, 2009).

Another potential synergic distribution channel is related to the banking correspondents' network. Banking correspondents in Brazil, called banking agents in other low developed and emerging countries, are non-bank institutions that are allowed to supply financial services for specific banks (DATAFOLHA, 2009). Lottery houses, drugstores and groceries are concrete examples. Brazil has more than 150,000 banking correspondents, meaning that the network is more than five times as big as the traditional bank branches (BCB, 2010). In addition, banking correspondents are the main channel used by poor households, especially those in rural areas and in the poorest outskirts of big urban cities. Therefore, there is room for expanding the use of correspondents for distributing insurance products specially designed for the poor.

METHODOLOGICAL APPROACH

Qualitative approach allows the examination of people's words and actions in narrative or descriptive ways more closely representing the situation as experienced by the participants. Furthermore, it enables a more accurate cross-cultural understanding of a topic, is more suitable to developing countries as some relevant data may lack (WELCH; PIEKKARI, 2005) and also favors the adoption of unstructured and open research processes (BRYMAN, 1988). In this sense, the qualitative method seemed appropriate for this study, as microinsurance market is still emerging, requiring researches and players to elaborate descriptions and definitions about its dynamics, in order to be better understood them.

According to Stake (1995), a case study "is expected to catch the complexity of a single case. One studies a case when it is of very special interest, such as the case of microinsurance Brazilian market in this research. Furthermore, the case study is particularly well-suited to any new areas of research, which is the case here, since microinsurance is still an emerging market.

In order to better comprehend the Brazilian microinsurance market, the data collection has been done by applying in-depth face-to-face interviews with decision makers from the BANK and SUSEP.

Their positions within the institutions are strategic and decisive regarding microinsurance operations. Decision makers from the BANK are: 1) microinsurance coordinator in the Technical Superintendence of New Businesses within the car insurance division and b) microinsurance coordinator within the BANK life and social welfare system division. From SUSEP, the decision maker interviewed is the manager of the project "microinsurance implementation".

These institutions have been selected because they could contribute to provide an overview of microinsurance segment, as the BANK is one of the biggest microinsurance service providers and SUSEP is the regulator of the insurance segment, with a broader view than other operators.

Following Creswel (2003, 188) recommendation, these interviews involved "…unstructured and open-ended questions that were few in number and intended to elicit views and opinions from participants." These kind of questions enable the authentic comprehension of the experiences about the environment where the interviewed is inserted in (Silverman, 1993).The interview protocol (annex 1) was composed of questions related to the context, the content and the negotiation process of microinsurance in Brazil. These questions were created based on the researched theory. In order to record information from the interviews, the researcher took notes, as interviewees have not authorized to audiotape it. The chosen environment was the offices where interviewees work, in order to facilitate the scheduling of interviews. Data were collected during the first semester of 2011.

The reason for interviewing a small number of people is that microinsurance is a quite recent phenomenon and so far a very limited number of decision makers have being worked directly in the area, being able to contribute for the discussion. The answers collected from interviews created opportunities to access a broader perspective from inside players (WELCH; PIEKKARI, 2005). This data collection strategy opens an avenue to other researchers who wants to deep the knowledge on microinsurance area.

The BANK

It is important to provide details about the bank selected for this research in order to show how a big player may act in the insurance market in Brazil and how its expectations and movements can influence the market dynamic.

The BANK is among the three biggest private banks in Brazil. The insurance services are performed by two divisions, life and social welfare system and car insurance, reaching over 36 million people.

As a strategy to enlarge its market share, two years ago, the BANK decided to include low-income clients in its target market. The decision of entering in a new market segment was supported by a study developed in 2009. The results of this study showed that many potential low-income customers already used that kind of schemes, through cooperatives, mainly based in the North East region of Brazil. Furthermore, it would be an opportunity to optimize costs, since microinsurance products could be distributed by its own bank branches.

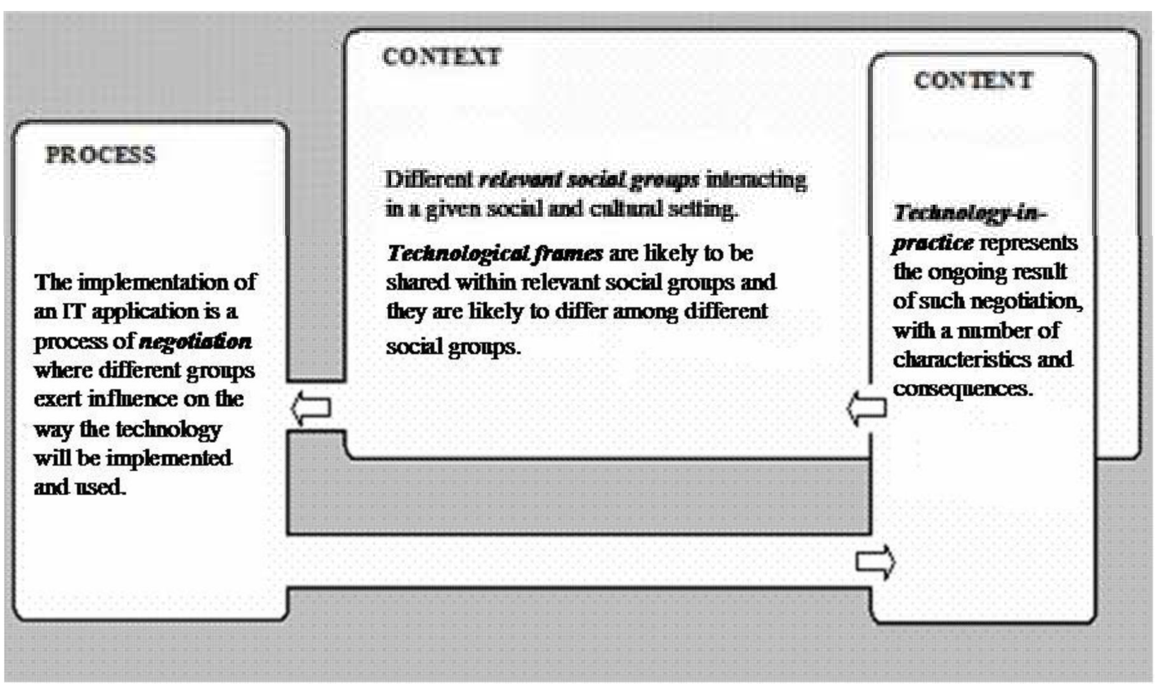
In January 2010, The BANK launched a microinsurance scheme named "First Protection". Currently the product is acquired by approximately 560,000 clients. It offers a 20,000 BRL protection charging a 3.50 BRL monthly premium and has a termination rate 25% lower than traditional schemes, covering mainly accidental death. Nowadays, the BANK's objective is to insure at least one family in every municipality of the country.

ANALYSIS AND INTERPRETATION

The analysis of empirical material was elaborated following the method proposed by Miles and Huberman (1994), which comprises three phases: condensation of data, presentation of data, and elaboration and verification of conclusions. The condensation of data was elaborated through the codification method.

Prior to codify data, the researchers familiarized themselves with the interview transcriptions, by conducting a deep reflection about the data, reading the notes carefully. Then, data were divided into three broad categories– context, content and negotiation process, following the Pozzebon et al (2009) framework (Figure 1). The following step was localizing relevant information and grouping them by smaller themes (USUNIER et al, 2000), labeling them with a term based in the actual language of the interviewees– in vivo term (CRESWEL, 2003), respecting the subjects' ways of thinking (BOGDAN and BIKLEN, 1992). In this sense data were assembled in the following categories: context was divided in "absence of information and payment of excessive rates", "consumption variability and increased economic risk"; the negotiation process was divided in "market failures and opportunities to the expansion of microinsurance concept in Brazil", "promotional campaigns to the target public", and "distribution channels"; and finally, the content referred only to the smaller category "technology".

Figure 1 - The Multilevel Framework (Pozzebon et al, 2009)



The Context

The first level for data interpretation is “the context”, which refers to the social setting where a methodology is being implemented and used. It comprises the interpretive frames, meaning the interests, expectations and assumptions that individuals might have.

Among many factors that could explain the incidence of poverty in incomplete markets there is the lack of insurance to low-income segments (MORDUCH, 1994). During the interview, the BANK’s executives mentioned three management drivers adopted to handle that factor: improving communication, promoting financial education and managing distribution channels. SUSEP’s executive also mentioned financial education and distribution channels as relevant management drivers, but included regulation as a decisive factor to face problems in the insurance market.

As an incomplete market, the weakness of social insurance is manifested as increased economic risk, consumption variability, payment of excessive interest rates, and absence of information. For each of these problems, we have identified that the BANK is adopting distinct management drivers as explained right below.

Absence of information and payment of excessive rates:

The BANK is improving communication in order to provide a better understanding of the products and services delivered to their target clients. In 2009, when the BANK decided to launch its first insurance product aimed at low-incomes; they found out that the word insurance had not a positive meaning among low-incomes. This could be the reason why many individual from poor communities preferred to acquire substitute products for insurance in the informal market paying higher prices for that. To manage this market failure, the BANK decided to not adopt the name insurance for these products. Instead, the product was named “protection”.

To handle other consequences of absence of information, the BANK is going beyond communication. Nowadays, the institution is investing also in financial education, in order to better explain the product characteristics and advantages to its target public, which is a big challenge when leading with poor communities.

SUSEP executive believes that financial education is a decisive tool to promote the microinsurance adoption around the country. Financially educated people will be more capable to contribute to the design of products that respond to their needs. With education, the interaction rises and microinsurance products and services would be more adapted to the expectation and needs of low-incomes.

Consumption variability and increased economic risk

Consumption variability and increased economic risk factors may be minimized by improving the BANK's distribution management. The BANK believes that being close to the poorest when they need is a way to avoid that they look for informal insurance agents to get the sorely needed resources for emergencies covering. This is advantageous for the public because informal sources of resources tend to overcharge interest borrowing rates. In addition, being close to the target increase the possibility of paying insurers when they need. In summary, from the BANK standpoint been closer to its target could be more profitable as this is an efficient way of collecting microinsurance products payouts.

SUSEP executive also recognized that having a good distribution infra-structure is an important element to microinsurance success. According to the interviewed SUSEP manager the distribution of products gives the tone of microinsurance in the country.

In addition to distribution channels as a management driver, SUSEP emphasized the need of promoting a significant adaptation of insurance regulation to microinsurance products. The executive emphasized the need of building a flexible regulation, in order to facilitate citizens' lives but at the same time to protect them from eventually insurers' abuse. This is a way of reducing the economic risk they are usually exposed to.

The Negotiation Process

The second level for data interpretation is the "negotiation process", meaning the way groups may have influence over the implementation of microinsurance in order to minimize the restrictions encountered (POZZEBON et al, 2009). The points underlined during interviews and their respective analyses emphasized the ways groups have handled the failures in the incomplete market. They are right below.

Market failures and opportunities to the expansion of microinsurance concept in Brazil

The adverse selection caused by information asymmetry may be considered as opportunity in the BANK's executive discourse. For them, there is not a restriction that could be considered a real barrier to the market growth, but only a few restrictions to be corrected and every effort should be made to explore the whole potential market.

In this sense, a special attention should be given to "favelas" (slums) as a territory where it could be developed. The adverse selection problem in this market would be worse if BANK managers do not attempt to the need of adapting products to the distinct characteristics of slums' households located in different regions of the country. The BANK has to use informational tools to remind those communities that microinsurance products are accessible and affordable, and that it could be preferable to other less economical or riskier options such as borrowing money from a neighbor or selling belongings in order to cover damages.

Some tools can help to democratize and disseminate the product, but it is important that the BANK be attempt to the risk of increase the problem of adverse selection. This is the case of lottery tickets that clients receive when they subscribe an insurance product. In the case of the BANK popular insurance product the premium is 3.50 BRL per month with a 20,000.00 BRL maximum cover. In fact, this is a tool that stimulates the acquisition of microinsurance product and, according to executives' view, the BANK do that in order to disseminate the product but, at the same time, it could lead to the acquisition of a unneeded product, contributing to jeopardize the economic situation of the poor.

Nevertheless, the dissemination of microinsurance products should be done along with other actions. There are a few market failures that should be analyzed and minimized. High relative administrative costs, low remuneration to brokers, improper regulation, misinterpretation of usage factors, and operational problems such as fraud have been mentioned by BANK executives as problems that should be solved.

Administrative costs was quoted as potential restriction to the development of microinsurance; since costs for that kind of schemes are almost as high as traditional insurance schemes. In order to compensate those high costs, the BANK is spending less in marketing and sales areas for microinsurance products, and the promotion has been done thanks to mouth-to-mouth within the BANK agencies and their brokers, press release, spontaneous media, churches, community centers, schools, etc.

Moreover, microinsurance sales commissions are also lower than those paid for regular insurance sales. Since brokers are currently the main distribution channels, these lower commissions limit brokers` interest in selling microinsurance products and consequently limit their expansion.

In addition to the high costs, there are also many usage factors that may influence the consumer behaviour. For example, large microinsurance companies have already identified that low-incomes tend to avoid the acquisition of funeral microinsurance products, as long as this kind of attitude would link them directly with the idea of death. In order to avoid that idea, between 20 and 25 million low-income individuals use funeral microinsurance services on an informal basis, only after death. Besides glossing over the idea of death, this option makes the process simpler, since a large number of informal funeral homes do their own underwriting without basing it on insurance principles or being watched over by the regulator.

In order to better compete with informal funeral options, many insurance companies are creating products named “benefits in life”, even though it includes life, health and funeral assistance (BESTER et al, 2010). In addition to improve profits, it may contribute to reduce the risk exposition of consumers to potential insolvency of informal companies that are not always in compliance with local laws and regulations.

From SUSEP point of view, one important aspect to handle is the regulation flexibility. The primary objective of the Brazilian regulative institution has been to implement a “soft” legal framework that could be as flexible as possible to benefit consumers of microinsurance products. Even though, the current legislation is not totally suited to the Brazilian market needs, it has progressed a lot during the past few years and does not present any potential limit to the expansion of microinsurance in

Brazil. For instance, Brazilian law allows the creation of partnerships between bank/insurers and various types of retailers, including utilities` distributors.

Providing flexibility to the actual insurance legislation will improve efficiency, contributing to minimize most of the problems mentioned by the BANK executives, such as high administrative costs and low remuneration of brokers.

Promotional campaigns to the target public

In order to reduce information asymmetry, the BANK is working on a few different projects. The BANK has led a three-month pilot-project in a “favela” in the city of Rio de Janeiro in order to promote the microinsurance concept. The BANK used communitarian radios, short soap-operas (“novelas”), and theatre plays as media to explain the concept of microinsurance to this community and to analyse their reaction to this new product.

As another marketing initiative, the BANK is also analysing how to adapt regular insurance products to microinsurance needs in distinct regions of the country. This adaptation depends on the region differences, whether they are cultural or geographical. For instance, if the BANK wants to market its product in the Amazon region, it will have to make a few changes in its products due to climate risk differences: this region is subject to damages caused by floods and fires, implying that insurance policies have to be adapted and therefore the way these products are advertised.

These differences is also making the BANK thinking about replacing the product name “insurance” for another one, closer to the Amazonian vocabulary, quite different from other Brazilian regions. This will also help to remedy the bad reputation that the word insurance has among people from poor communities. Such initiative could only be done with the authorization of SUSEP.

Regarding legislation, among the points approved on November 2011 by CNSP, there is the definition of maximum insurance premiums value for microinsurance products. As this law will interfere on the banks’ profits, from now on, they must consider that point on the definition of their promotion campaigns budged.

Distribution channels

Adverse selection could be minimized also by democratizing access. By having more accessibility to microinsurance products, the target public may became more informed about their characteristics and also more able to select them according to their needs.

One way of promoting access is developing various distribution channels. In this fashion, the BANK has been developing many distinct ways to distribute its microinsurance products and services, creating its own company or outsourcing the service to its partners.

In this sense, in 2008, the BANK created a special company to reach differentiated targets and to explore new market opportunities. The market responded very well to the BANK initiative, buying about one million of insurance schemes during the first year of this company operation.

The BANK is also developing other alternative distribution channels, signing partnerships with energy providers, furniture chains and other types of retailers, who are responsible for charging their clients the insurance premium on behalf of the Bank. These partners charge insurance premiums at the same invoice they use to charge utilities or retail services or products, specifying distinct charges. By outsourcing the premium collection, the BANK may reach a larger scale and also save operational costs, providing, at the same time, advantages for its clients who get easily access to bill payment services.

For BANKs ‘partners, that is an easy source of revenues, since they are remunerated for this service and since they already have their own payout collection structure. For the regulatory institution (SUSEP), this kind of service could be practiced as long as the customers be aware that they are paying the insurance bill at the same bill he is paying the partners' bills. Indeed, in these cases the risk is that customers paying their insurance in the same bill as they use to pay utility services or retailers products may not realize that they are actually paying for two different services or for a product and service, in the case of retailers' bills.

Regarding partnership, the banking correspondent's network has been considered as one of the most important elements for the growth of the BANK microinsurance market. At the moment, the BANK has over 25,000 partners' agents around the country that could be its correspondents. The use of this channel is primal for the BANK to accomplish economies of scale and also to increase its market share.

SUSEP's stance is that banking correspondents is a relevant potential distribution channel for microinsurance products. Actually, this channel can provide capillarity throughout the country, since there are more than 150,000 banking correspondents in Brazil and they are present in each of the 5,565 Brazilian municipalities (BCB, 2010).

For that reason, SUSEP needs to apply and supervise a regulation that enables banking correspondents to distribute microinsurance schemes; so far, there is a legislation issued by CNSP that allows traditional insurers, retailers or community associations to commercialize microinsurance products. It is necessary that SUSEP defines the application of that legislation in order that its definitions turn into practice. SUSEP considers this a major step in microinsurance democratization in Brazil, as this is an alternative to reach outlying communities in places where the operation of an insurance/bank branch is not profitable.

In order to expand the outsourcing practice throughout the country, on December 2011, CNSP also stipulated new regulatory measures that make possible to simplify documents required for signing up microinsurance products. The simplification would lead to simplified training, thus facilitating the access of less-educated individuals to the function of microinsurance agent. In fact, since microinsurance aims low-incomes, it would be easier if those products were sold by individuals from the same clients communities, since they can understand local issues more easily.

A preferential tax treatment is another aspect that has also been mentioned as a potential tool to expand microinsurance around the country, still being evaluated.

The Content

The third level for data interpretation is “the content”, which comprises the “methodology in practice” and concerns the potential consequences, either direct or indirect, of the implementation of microinsurance services, as well as the potential tools that could be part of their development (POZZEBON et al, 2009).

Technology

In this sense, technology has been an engine of the microinsurance expansion in Brazil, reducing adverse selection, as far as it enables its democratization around the country. Technology underpins the combination of lottery games and microinsurance products by many microinsurance companies in Brazil. In fact, the software application made it possible and automatic: when one customer subscribes to an insurance product, he receives a lottery number and automatically enters in a monthly draw. This lottery is segmented by insurance division, which means that if someone applies to different insurance schemes within the BANK, he/she will enter in many lottery draws. According to the interviews, this is a powerful tool of promotion and incentive for its popularity among the BANK clients. In order to reinforce this modality, the BANK is offering the possibility of its acquisition through internet, ATMs (Automatic Teller Machine), PDAs (a pilot test is being led in 15 agencies of Sao Paulo), and mobile phones.

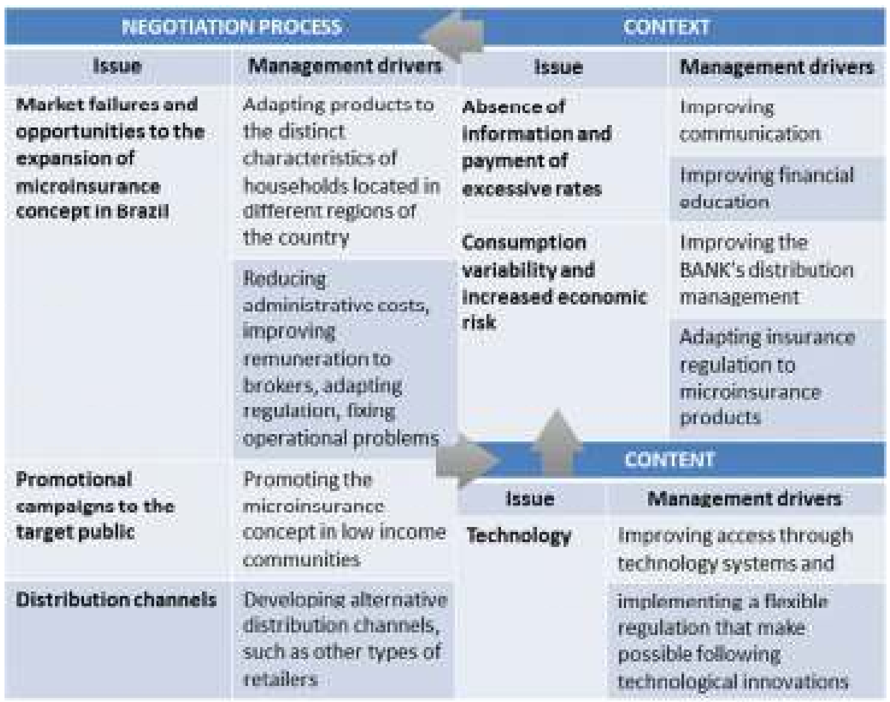
Other uses of technology can be pointed out as ways of democratizing microinsurance products and services. Currently, the BANK is developing an automated system to respond their clients’ demands more efficiently. For example, in case of a natural disaster in a particular region, the control system is used to identify the potential victims in order to start the payouts as soon as possible or to provide any services that could help the victims, such as funeral services or distribution of immediate needs kits. Another example is the credit card penetration into the lower-income market, which has constituted a big step towards financial inclusion and has a strategic role to play along with technologies such as mobile phones.

From SUSEP’s point of view, technology evolves much faster than regulation. For that, the real challenge is making legislation keeping pace with technology trends. The institution objective is to implement a flexible regulation that make possible following technological innovations, contributing to improve the access of microinsurance potential clients. In this sense, the legislation approved by CNSP on November 2011, allows that microinsurance trading be done by remote devices, such as mobile phone or through the Internet. Now, it is necessary that SUSEP defines the law application and supervises the practice.

CONCLUSIONS

The objectives of this research were to investigate the dynamics of microinsurance market in Brazil and evaluate its opportunities and restrictions. They were covered by the analysis performed through the multilevel framework (POZZEBON et al, 2009). The analysis was done considering the contextual particularities of Brazilian market, the negotiation process between Bank, regulator and clients' needs, and the content, which are the services and tools that are part of the microinsurance development. Figure 2 presents an overview of context, content and negotiation process of microinsurance in Brazil.

Figure 2 – An overview of Context, content and negotiation process of microinsurance in Brazil



The relevance of this article is that it shed lights on the need of a broader view in respect to microinsurance market issues. This view should cover not only management issues as the adoption of new distribution channels such as correspondent banking in Brazil or the need of products customization targeted to low-income people, but also issues related to lack of literacy and incomplete regulation.

Furthermore, the article covers an important issue for emerging and developing countries, since microinsurance is a relevant tool to face poverty and the poor are the most exposed to adverse shocks that may jeopardize the welfare level. Microinsurance is one of the components of microfinance. As such, it is not a substitute to microcredit but a necessary complement in order to promote financial and social inclusion.

The main findings of the empirical investigation point out the importance of market-driven solutions, which means adapted to client needs and expectations. In addition, products have to cover basic needs and to be easily understandable and affordable. The payout application process and other services have to be simpler and quicker than they are in the case of regular insurance products, especially for households living in remote communities. These confirm other author's findings, such as Dercon`s et al (2008) who presents the literacy gap and the need of products with attributes such as simplicity and affordability as relevant issues for the demand side. The findings presented here also make relevant to consider Magnoni and Zimerman (2011) emphasis on the need of products and services that fit the needs of low-income.

Innovation must play a major role by providing the building of new approaches instead of replication of already existing business models. In this case, Brazil has a comparative advantage related to its existent banking agents' network – locally termed banking correspondents. This is a relatively cheap and efficient avenue for premium collection. Dercon et al (2008) state that delivery channels should be considered as an important issue on the supply side of microinsurance.

As for Microfinance Institutions that decide to implement microinsurance schemes, it has to come together with proper training for agents. As Cull et al (2009) state "Innovations to overcome well-known problems of asymmetric information in financial markets were a triumph, but further innovation is needed to overcome the challenges of high costs".

This article can be regarded as a preliminary study inasmuch the subject is recent not only in Brazil but in the world; the theme has been researched for about ten years (KOVEN et al, 2010). As for a future research agenda, financial education is a relevant topic to be explored, as well as subjects related to the use of mobile for distributing financial services, which is being implemented all around the world, especially in Africa. Finally, it may be suggested the study of the implementation of indicators to measure the impact of microinsurance on households and to optimize renewal rates. Authors such as Dercon et al (2008) have already introduced few possibilities to be better explored in this theme such as the assessment of the protection level the insurance provides when a shock occurs (ex-post) and impact on households' behavior before shocks occur (ex-ante).

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INTERVIEW PROTOCOL

1. What are microinsurance key-success-factors in Brazil?

2. Are there any limits to the expansion/development of the concept of microinsurance in Brazil?

3. Did you adapt your promotional campaigns to the public targeted (easily understandable; use of comics, pictures…)?

4. What about the banking correspondent's network?

5. What about alternative distribution channels (food stores, cell phones, kiosks, clothes shops,

   Wal Mart, Leroy Merlin, electricity bills to collect premiums)?

6. What is the role of technology (premium collection thanks to cell phone or banking software, claims processing)?

7. Any perspectives of development such as mobile banking applications?